

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02
SS-15 USIA-15 AID-05 COME-00 EB-08 FRB-01 XMB-04
OPIC-06 LAB-04 SIL-01 OMB-01 CEA-01 STR-05 AGRE-00
DOE-12 SOE-01 /131 W
-----114426 211103Z /11

P R 210910Z DEC 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 3754
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - DEC 15-21

REF: A) TOKYO 19424, B) TOKYO 19442, C) TOKYO 19385 D) TOKYO
19214

1. SUMMARY: 7 PERCENT GROWTH TARGET FOR FY 1978 ADOPTED.
EXCHANGE RATE PRESSURE EASES. OUTLINES OF EXPANSIONARY
BUDGET BEGIN TO EMERGE. DISCOUNT RATE CUT OF 0.5 PERCENTAGE
POINTS WIDELY RUMORED. ECONOMIC PLANNING AGENCY (EPA)
REPORTED READY TO FORECAST 7 PERCENT GROWTH AND \$6 BIL CURRENT
ACCOUNT SURPLUS FOR FY 1978. PRIVATE FORECASTERS MORE PESSI-
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MISTIC. ANOTHER LARGE \$1.2 BIL, CURRENT ACCOUNT SURPLUS (S.A.)
RACKED UP IN NOV. IMPORT PRICES DROP 3.3 PERCENT IN NOV,
EXPORT PRICES OFF 1.8 PERCENT. PRODUCTION, SHIPMENTS AND
INVENTORY INDICES ALL REVISED DOWN SOME FOR OCT. OVER-
TIME PICKS UP A LITTLE IN OCT. END SUMMARY.

2. ON THURS DEC 15 KEY ECONOMIC MINISTERS AGREED TO SET

A GROWTH TARGET FOR FY 1978 OF 7 PERCENT. THE DECISION TO GO FOR THE 7 PERCENT TARGET, SOMEWHAT ABOVE THE FIGURE THAT HAD BEEN UNDER ACTIVE DISCUSSION, CAME AFTER A DAY IN WHICH THE EXCHANGE RATE SURGED ABOVE THE BANK OF JAPAN'S PREVIOUS DEFENSE LINE OF 240 TO THE DOLLAR. FOLLOWING UP ON THE GROWTH TARGET DECISION, KEY MINISTERS SAID THE GOVT WOULD ADOPT FISCAL AND MONETARY POLICIES TO SEE THAT THE TARGET WAS ACHIEVED.

3. MARKET REACTION TO THE DEC 15 ANNOUNCEMENT WAS POSITIVE. ON DEC 16 THE EXCHANGE RATE REVERSED ITS RISE OF THE PREVIOUS DAY TO CLOSE AT 241.50, A 3.5 YEN DROP FROM 238 CLOSING OF DEC 15. THE 238 LEVEL OF DEC 15 HAD BEEN HELD ONLY AS A RESULT OF MASSIVE INTERVENTION BY THE BOJ. PRESS REPORTS SAY THE BOJ BOUGHT APPROXIMATELY \$700 MIL ON DEC 15. SINCE THE 16TH THE YEN HAS RECOVERED A LITTLE TO TRADE IN THE 240-241 RANGE IN MORE SUBDUED TRADING.

4. FINAL DETAILS OF THE GOVT'S PROPOSED REFLATIONARY PROGRAM HAVE NOT YET BEEN DECIDED BUT THE GENERAL CONTOURS HAVE BEGUN TO EMERGE IN RECENT DAYS. AS REPORTED SEPTTEL, BASED ON PRESS REPORTS IT APPEARS THE SUPPLEMENTARY BUDGET FOR FY 1977 WILL ADD ABOUT YEN 370 BIL TO GENERAL ACCOUNT EXPENDITURES AS WELL AS PROVIDING BORROWING AUTHORITY TO COVER TAX SHORTAGES THAT ARE RUNNING TO BETWEEN YEN 0.8 AND 1.0 TRILLION. THE REGULAR FY 1978 BUDGET, ALSO TO BE COMPLETED THIS

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MONTH, REPORTEDLY WILL CALL FOR A 20 PERCENT INCREASE IN GENERAL ACCOUNT EXPENDITURES WITH A HEAVY EMPHASIS ON PUBLIC WORKS. FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) ARE EXPECTED TO EXPAND ABOUT 18 PERCENT. BOND DEPENDENCY WILL PROBABLY RUN TO 34 PERCENT OF GENERAL ACCOUNT EXPENDITURES IF FY 1977, AND, WITH SOME ACCOUNT JUGGLING, MAY RUN AT 32 PERCENT IN FY 1978 (37 PERCENT WITHOUT THE JUGGLING). THE FY 1978 DEFICIT IS LIKELY TO BE YEN 11 TRILLION (\$46 BIL AT 240/DOLLAR).

5. AS REPORTED REFTTEL A, THERE ARE RUMORS A CUT IN THE DISCOUNT RATE TO 3.75 FROM PRESENT 4.25 PERCENT IS ALSO UNDER DISCUSSION AS PART OF THE STIMULUS PACKAGE. HOWEVER, AGREEMENT ON THIS MEASURE HAS NOT YET BEEN FIRMED UP.

6. ACCORDING TO NIHON KEIZAI, GOVT OF JAPAN WILL FORECAST 7.0 PERCENT REAL GROWTH RATE AND \$6 BIL CURRENT ACCOUNT SURPLUS FOR NEXT FISCAL YEAR STARTING IN APRIL 1978. ALTHOUGH OFFICIAL ECONOMIC PROJECTION FOR JFY 1978 ALONG WITH REVISED FORECAST FOR CURRENT FISCAL YEAR WILL NOT BE RELEASED UNTIL EVENING OF DEC 21, FIGURES REPORTED BY THE LOCAL PRESS APPEAR TO PROVIDE RELIABLE CLUE TO OFFICIAL ECONOMIC PROJECTION.

FOLLOWING IS GOJ ECONOMIC FORECAST FOR JFY 1978 REPORTED BY
NIHON KEIZAI DEC 20.

GOJ ECONOMIC FORECAST FOR JFY 1978

(1) GNP AND RELATED FIGURES (PERCENT CHANGE FROM PRIOR YEAR):

	NOMINAL		REAL	
	JFY 78	JFY 77(REV)	JFY 78	JFY 77 (REV)
GNP	12.0	11.1	7.0	5.3
PVT				
PVT CONSUMPTION	11.9	N/A	SLIGHTLY	SLIGHTLY LESS
	MORE THAN THAN 4			
PVT HOUSING		5		
INVESTMENT	13.6	N/A	SLIGHTLY	SLIGHTLY LESS
	LESS THAN THAN 4			
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PVT PLANT AND EQUIP 9	N/A	6.8	AROUND 0.5
INVESTMENT			
PVT INVENTORIES			
INVSTMENT	24.6	N/A	AROUND 20 N/A
GOVT FIXED CAPITAL			
FORMATION	20	18	16 16
GOVT CONSUMPTION	11.3	AROUND 11	SLIGHTLY SLIGHTLY MORE
	MORE THAN THAN 3		
	4		
NET EXPORTS	N/A	N/A	0 N/A
CPI	6.8	7.6	
WPI	2.7	0.6	

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 OPIC-06 LAB-04 SIL-01 OMB-01 STR-05 CEA-01 AGRE-00
 DOE-12 SOE-01 /131 W

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P R 210910Z DEC 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 3755
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INFO AMEMBASSY BONN
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(2) BALANCE OF PAYMENTS (IN & BIL; PERCENT CHANGE FROM
PRIOR YEAR IN PAREN):

JFY 1978
CURRENT ACCOUNT BALANCE 6.0
TRADE BALANCE 13.5
(EXPORTS) 85.0 (7)
(IMPORTS) 71.5 (13)
SERVICES AND TRANSFER BAL MIN 7.5
LONG-TERM CAPITAL BAL MIN 7.0
BASIC BALANCE MIN 1.0

7. PRIVATE ECONOMIC FORECASTS RELEASED IN RECENT DAYS HAVE
BEEN LESS SANGUINE, EVEN TAKING ACCOUNT OF THE GOVT'S
PROPOSED STIMULUS MEASURES. FOLLOWING ARE SAMPLE OF
RECENT PRIVATE FORECASTS FOR FY 1978.

SOURCE REAL GROWTH CURRENT ACCOUNT
JERG 4.4 PLUS \$8.6 BIL

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NOMURA RESEARCH 4.6 PLUS 9.1 BIL
INSTITUTE OF NATIONAL
ECONOMY 4.7 PLUS 5.3 BIL
MITSUBISHI RESEARCH 5.4 PLUS 7.8 BIL
KEIDANREN LESS THAN 6.5 MORE THAN PLUS 6.6 BIL
NOTE: THE KEIDANREN POINT ESTIMATES WERE PREDICATED ON A BUDGET
SLIGHTLY MORE EXPANSIONARY THAN WHAT APPEARS TO BE UNDER
CONSIDERATION.

8. AS REPORTED REFTTEL B, JAPANESE CURRENT ACCOUNT SURPLUS
ROSE TO \$1.2 BIL (S.A) IN NOV. THIS BRINGS THE CUMULATIVE
SURPLUS FOR THE FIRST ELEVEN MONTHS OF CY 1977 TO \$9.8 BIL (S.-A.).

9. EXPORT AND IMPORT CONTRACT PRICE INDICES (1975 EAUALS 100,
N.S.A., JEI 80 AND 88, RESPECTIVELY) DECLINED IN NOV TO 90.4
AND 94.1, RESPECTIVELY. MONTHLY DECLINE IN IMPORT PRICE
INDEX WAS A LARGE 3.3 PERCENT IN NOV WHILE EXPORT PRICE INDEX
DROPPED 1.8 PERCENT FROM OCT LEVEL. BEGINNING WITH THE NOV
INDICES, BANK OF JAPAN HAS CHANGED THE BASE YEAR FROM
1970 TO 1975 FOR EXPORT AND IMPORT PRICE INDICES. FOLLOW-
ING ARE HISTORICAL DATA BASED ON NEW BASE YEAR.

CONTRACT PRICE INDICES (N.S.A., 1975 EQUALS 100)

	EXPORTS	IMPORTS
1976 (AVERAGE)	98.4	106.0
1977: JAN	96.6	105.9
FEB	95.4	106.5
MAR	94.6	106.6
APR	93.9	105.7
MAY	94.6	105.8
JUNE	94.1	103.4
JULY	93.0	100.1
AUG	93.4	100.1
SEP	93.8	100.1

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OCT	92.1	97.3
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10. AS REPORTED REFTEL C INDEX OF MINING AND MANUFACTURING PRODUCTION FOR OCT WAS REVISED DOWNWRD TO 129.8, TO SHOW A 0.3 PERCENT DECLINE VS A PRELIMINARY DECLINE OF 0.2 PERCENT. PRODUCERS' SHIPMENTS INDEX FOR OCT WAS REVISED DOWN TO SHOW A 1.8 PERCENT DROP VS A PRELIMINARY DROP OF 1.1 PERCENT. OCT DROP IN INVENTORIES OF FINISHED GOODS REVISED DOWN FROM 0.6 PERCENT DECLINE TO 0.7 PDECLINE.

11. OVERTIME WORKED IN MANUFACTURING INDUSTRIES, S.A., INCREASED SLIGHTLY IN OCT OVER PRIOR MONTH'S LEVEL. THE FIST INCREASE IN SIX MONTHS (REF D PARA 7). COMARED WITH JUL-SEP QUUARTER'S AVERAGE, HOWEVER, OCT INDEX WAS DOWN 0.4 PERCENT.

JEI NO. SERIES UNIT)	AUG	SEP	OCT
401 MFG. OVERTIME (1975 EQUALS 100)	135.5	135.1	135.3

MANSFIELD

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Message Attributes

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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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